

Message Text

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ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 PM-03 SP-02 EB-04
INR-05 CIAE-00 DODE-00 TRSE-00 IO-06 DHA-02 /049 W
-----171206Z 077001 /11

R 171105Z FEB 77
FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 3089
INFO AMEMBASSY DAMASCUS
AMEMBASSY JIDDA
AMEMBASSY KUWAIT

C O N F I D E N T I A L SECTION 1 OF 2 BEIRUT 0718

LIMDIS

E.O. 11652: GDS
TAGS: EAID, LE, US
SUBJECT: CALL ON PRIME MINISTER AL-HOSS

1. SUMMARY. ON FEBRUARY 16. AMBASSADOR AND EMBOFF
YELLIN CALLED ON PRIME MINISTER AL-HOSS WHO GAVE
EXPOSITION OF GOL PRIORITIES AND RECONSTRUCTION
STRATEGY. IN EXPLAINING NEED FOR FUNDS, HE NOTED
THAT BANKS IN LEBANON HAD ALREADY EXTENDED LOANS
OF LL5 BILLION AND HAD A NET EQUITY OF ONLY LL500 MILLION.
THUS IF ONLY TEN PER CENT OF THE DEPTS WERE DEFAULTED,
NET EQUITY WOULD BE ZERO, AND MANY SMALL BANKS WOULD
FAIL. AMB TOLD HOSS WE WERE AUTHORIZED TO OPEN
NEGOTIATIONS FOR A PL-480 TITLE I AGREEMENT, AND HE
ASKED THAT WE HOLD THE FIRST SESSION ON FEB 22.
END SUMMARY.

2. ON FEB 16, SECOND SECRETARY YELLIN AND I CALLED
ON PRIME MINISTER SELIM AL-HOSS. DURING THE COURSE
OF OUR CONVERSATION, HE MADE WHAT I UNDERSTAND IS
STANDARD EXPOSITION OF THE GOL'S RECONSTRUCTION
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STRATEGY AND NEEDS, TO WIT:

A. PRIORITIES.

(1) FIRST PRIORITY WAS THE ESTABLISHMENT OF
SECURITY. TO THIS END, THE GOL NEEDED TO REBUILD
THE ARMY AND INTERNAL SECURITY FORCES (ISF). IN

PARTICULAR, GOL NEEDED ARMS AND EQUIPMENT FOR THE ISF SO THAT IT COULD ASSUME SOME OF THE FUNCTIONS OF THE ASF. JORDAN AND SAUDI ARABIA HAD AGREED TO PROVIDE SOME ASSISTANCE. LIBYA HAD MADE POSITIVE NOISES BUT HAD SO FAR REFRAINED FROM MAKING ANY COMMITMENTS.

(2) SECOND PRIORITY WAS THE SOLUTION OF SOCIAL PROBLEMS WITH POTENTIALLY SERIOUS POLITICAL CONSEQUENCES. IN PARTICULAR, THE GOL NEEDED TO HOUSE "HUNDREDS OF THOUSANDS" OF PEOPLE DISPLACED DURING THE FIGHTING. MANY OF THESE PEOPLE ILLEGALLY OCCUPIED APARTMENTS IN BEIRUT AND REPRESENTED A "HOT PROBLEM."

(3) THIRD PRIORITY WAS RECONSTRUCTION PROPER. GOL NEEDED TO REPAIR SUBSTANTIAL DAMAGE IN THE PUBLIC AND PRIVATE SECTORS.

B. FOREIGN AID

(1) THE GOL NEEDED EXTERNAL FINANCING BECAUSE, AMONG OTHER REASONS, THE BANKS IN LEBANON WERE UNWILLING AND UNABLE TO EXTEND CREDITS OF THEIR OWN ACCORD. HE SAID HE WOULD NOT WANT IT KNOWN PUBLICLY, BECAUSE THAT WOULD DESTROY PUBLIC CONFIDENCE, BUT THE BANKS HAD ALREADY MADE LOANS AMOUNTING TO LL5 BILLION, WITH NET EQUITY OF ONLY LL500 MILLION. IF TEN PERCENT OF THE LOANS WERE CONFIDENTIAL

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DEFAULTED, NET EQUITY WOULD BE ZERO, AND MANY SMALL BANKS WOULD FAIL.

(2) THE ARAB COUNTRIES HAD OFFERED TO FINANCE PROJECTS IN THE PUBLIC SECTOR, BUT GOL HAD "TRIED TO DIVERT THEM FROM THIS VIEW." THE GOL BELIEVED IT COULD OBTAIN MONEY FOR THE PUBLIC SECTOR "THROUGH NORMAL CHANNELS SUCH AS THE WORLD BANK AND OTHER FRIENDLY COUNTRIES." HOWEVER, LEBANON WOULD NEED LONG-TERM LOANS AT FAVORABLE RATES FROM THE ARAB STATES TO FINANCE RECONSTRUCTION IN THE PRIVATE SECTOR. (AL-HOSS MAY BE OVERLY SANGUINE. A WORLD BANK OFFICIAL RECENTLY TOLD AN EMBASSY OFFICER ON FEB 15 THAT LEBANON MIGHT NOT BE ABLE TO MEET THE BANK'S CRITERIA FOR LOANS.)

(3) THE ARAB STATES HAD BEEN "PERSUADED OF THE LEBANESE VIEW," BUT STILL HAD MADE NO DEFINITE COMMITMENTS. SAUDI ARABIA AND KUWAIT WERE KEY.

IF THEY GAVE AID, OTHER STATES WOULD FOLLOW.

C. RECONSTRUCTION STRATEGY.

(1) THE RECONSTRUCTION AND DEVELOPMENT BOARD WOULD BE THE CENTRAL AGENCY FOR FORMULATING AND IMPLEMENTING DEVELOPMENT STRATEGY. THE BOARD WOULD RECEIVE "SOFT LOANS" FROM ABROAD AND IN TURN MAKE LOANS AT FAVORABLE RATES TO PRIVATE BANKS IN LEBANON TO ENABLE THEM TO FINANCE RECONSTRUCTION IN THE PRIVATE SECTOR.

(2) THE BOARD WOULD APPROVE OR DISAPPROVE OF THE BANKS' LOANS DEPENDING ON WHETHER THEY CONFORMED TO ITS SOCIAL AND POLITICAL OBJECTIVES. THUS, THE PRIVATE BANKS WOULD IN EFFECT BE THE GOVERNMENT'S APPARATUS FOR ADMINISTERING
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RECONSTRUCTION.

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C O N F I D E N T I A L SECTION 2 OF 2 BEIRUT 0718

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3. I EXPLAINED TO THE PRIME MINISTER IN GENERAL
TERMS THAT WE WERE PREPARED TO HELP BUT NEEDED

SPECIFICITY AND A SENSE THAT THERE WAS A RATIONAL OVERALL PLAN. I ALSO INDICATED WE WERE AUTHORIZED TO OPEN NEGOTIATIONS FOR A PL-480 TITLE I AGREEMENT. (WE ARE ASKING DAMASCUS IF AGATT SHACKFORD PITCHER WILL BE ABLE TO ATTEND. WE WILL NEED HIM IF WE ARE TO SPEAK INTELLIGENTLY ON SUBJECT.)

4. HOSS SAID HE WAS MOST APPRECIATIVE OF U.S. EFFORTS TO HELP. HE ALSO ASKED WHETHER THE UNITED STATES MIGHT BE ABLE TO (A) PROVIDE AN EXPERIENCED ECONOMIST WHO COULD SIT ON THE RECONSTRUCTION BOARD FOR YEAR OR PERHAPS TWO, AND (B) PROVIDE UNSPECIFIED NUMBER OF TECHNICIANS FOR SPECIFIC AREAS. HE MENTIONED TELECOMMUNICATIONS AS AN EXAMPLE, BUT IT NOT CLEAR THAT HE WAS REALLY ASKING FOR SOMEONE IN THAT FIELD. AM TOLD BY MY BRITISH COLLEAGUE THAT HE HAS ALSO MENTIONED TELECOMMUNICATIONS TO HIM.

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5. COMMENT: THE MORE LEBANESE I TALK TO, THE MORE DIFFICULT I FIND THEIR SITUATION. THE GOVERNMENT LEADERS ARE SENSIBLE AND PRAGMATIC, BUT THEY ARE GOING TO NEED A GOOD DEAL OF MATERIAL ASSISTANCE AND MORAL SUPPORT IF THEY ARE GOING TO PUT THIS PLACE BACK TOGETHER AGAIN. THEY CANNOT DO IT ALONE. I WILL HAVE MORE TO SAY ON THE SUBJECT AND RECOMMENDATIONS TO MAKE WHEN I HAVE SEEN MORE OF THE COUNTRY AND TALKED TO MORE PEOPLE. IN THE MEANTIME I REQUEST ANSWERS TO THE QUESTIONS POSED BELOW:

6. ACTION REQUESTED: PLEASE ANSWER THE FOLLOWING:

(1) WHAT ARE THE CHANCES OF GETTING AN ECONOMIC OFFICER EXPERIENCED IN RECONSTRUCTION MATTERS WHO COULD BE ASSIGNED HERE AS OUR REPRESENTATIVE ON THE RECONSTRUCTION COUNCIL? IT IS THE ONLY WAY WE ARE EVER GOING TO GET A HANDLE ON THE PROBLEM.

(2) WHAT IS THE SITUATION WITH REGARD TO FURNISHING INDIVIDUAL TECHNICIANS ON DEMAND? WE WOULD NOT WANT TO RECONSTITUTE AN AID MISSION, BUT BELIEVE WE COULD GIVE SOME ADMINISTRATIVE SUPPORT AND GUARANTEE DIPLOMATIC PRIVILEGES TO THEM.
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